

CITY OF ROCK RAPIDS

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2013

De Noble, Austin & Company PC
Certified Public Accountants
Rock Rapids, Iowa

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City of Rock Rapids

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jason Chase	Mayor	January 1, 2014
Marlene Bowers	Council Member	January 1, 2016
Cody Hoefert	Council Member	January 1, 2014
Tami Murray	Council Member	January 1, 2016
Matt Oedekoven	Council Member	January 1, 2014
Scott Schneidermann	Council Member	January 1, 2016
Jordan Kordahl	City Administrator, Clerk and Treasurer	Indefinite
Linda Trei	Deputy City Clerk	Indefinite
Linda McCormack	Librarian	Indefinite
Jackie Austin	Library Trustee	July 1, 2015
Ben Brink	Library Trustee	July 1, 2013
Jennifer Elbert	Library Trustee	July 1, 2017
Judy Gaspar	Library Trustee	July 1, 2015
Geneva Grooters	Library Trustee	July 1, 2015
Dennis Haselhoff	Library Trustee	July 1, 2013
Jaci Van Veldhuizen	Library Trustee	July 1, 2017
Michael R. Austin	City Attorney	Indefinite (Appointed)

DE NOBLE, AUSTIN & COMPANY PC

Certified Public Accountants

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MEMBERS
American Institute - Certified Public Accountants
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Iowa Society - Certified Public Accountants

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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Rock Rapids, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these primary government financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the primary government financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these primary government financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the primary government financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the primary government financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

The financial statements referred to above include only the primary government of the City of Rock Rapids, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles prepared on the basis of accounting described in Note 1 require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Rock Rapids, Iowa, as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information for the primary government of the City of Rock Rapids, Iowa, as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these primary government financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the primary government financial statements that collectively comprise the City of Rock Rapids' basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the primary government financial statements for the eight fiscal years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those primary government financial statements which were prepared on the basis of cash receipts and disbursements. Siebrecht Spitler & De Noble PC (Siebrecht Spitler & De Noble PC was formally dissolved and De Noble & Company PC is one of the two new companies that was formed directly from this dissolution) previously audited, in accordance with the standards referred to in the third paragraph of this report, the primary government financial statements for the fiscal year ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those primary government financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic primary government financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic primary government financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic primary government financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic primary government financial statements or to the basic primary government financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic primary government financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information for the primary government on pages 5 through 10 and 24 through 26 has not been subjected to the auditing procedures applied in the audit of the basic primary government financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2014 on our consideration of the City of Rock Rapids' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Rock Rapids' internal control over financial reporting and compliance.

De Noble, Austin & Company PC

De Noble & Company PC
d/b/a De Noble, Austin & Company PC
Certified Public Accountants

April 29, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Rock Rapids provides this Management's Discussion and Analysis of its primary government financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's primary government financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 17.3%, or \$634,431, from fiscal year 2012 to fiscal year 2013. Operating grants, contributions and restricted interest increased \$165,747; capital grants, contributions and restricted interest decreased \$120,515; local option sales tax decreased \$41,820; and capital loan note proceeds decreased \$641,247.
- Disbursements of the City's governmental activities decreased 0.6%, or \$17,773, in fiscal year 2013 from fiscal year 2012. Culture and recreation increased \$44,671; community and economic development increased \$62,454; debt service and capital projects decreased \$30,684 and \$101,845, respectively.
- The City's total cash basis net position decreased by 4.5%, or \$140,652, from June 30, 2012 to June 30, 2013. This decrease, compared with a \$476,006 increase in fiscal year 2012, is due primarily to a decrease in capital loan note proceeds in the amount of \$641,247 from the prior fiscal year and the timing of when those proceeds were spent (restricted for capital projects decreased from \$1,013,593 to \$669,320).

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic primary government financial statements and provides an analytical overview of the City's financial activities.

The Government-Wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position – Primary Government. This statement provides information about the activities of the City's primary government as a whole and presents an overall view of the City's finances.

The Fund Financial Statement tells how governmental services were financed in the short term as well as what remains for future spending. Also, the fund financial statement reports the City's primary government operations in more detail than the government-wide statement by providing information about the most significant primary government funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic primary government financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds of the City's primary government and the City's indebtedness.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the primary government financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the primary government financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-Wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position – Primary Government reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position – Primary Government presents the City's primary government net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position – Primary Government consists only of governmental activities. Business type activities, consisting of electric, water, wastewater and gas, are conducted by the Rock Rapids Municipal Utilities and reported separately. Business type activities are financed primarily by user charges. The Rock Rapids Municipal Utilities also maintains a revolving loan fund accounted for as a governmental activity (the Utilities received a "Rural Economic Development Grant" to assist with the establishment of this fund). To obtain the financial information on the Municipal Utilities, please contact the Municipal Utilities office. A copy of the Municipal Utilities' audit report is available for the public's review.

Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Program receipts; property taxes; tax increment financing; and local option sales taxes finance most of these activities.

Fund Financial Statements

The primary government of the City of Rock Rapids uses governmental funds only. Proprietary funds are used to account for business type activities and, as noted above, are conducted by the Rock Rapids Municipal Utilities, which is reported separately.

Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (1) the General Fund; (2) the Special Revenue Funds, such as Road Use Tax, Employee Benefits, Local Option Sales Tax, Urban Renewal Tax Increment, Revolving Loan and Library Memorial Trust; (3) the Debt Service Fund; (4) the Capital Projects Fund; and (5) the Permanent Funds, such as Library Endowment and Cemetery Perpetual Care. The governmental funds primary government financial statement provides a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Primary Government.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. Over the past year, the City's cash balance for primary government governmental activities decreased from \$3,102,734 to \$2,962,082. The analysis that follows focuses on changes in cash basis net position for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year Ending June 30,	
	2013	2012
Receipts:		
Program Receipts:		
Charges for Service	\$ 474,138	\$ 476,808
Operating Grants, Contributions and Restricted Interest	517,778	352,031
Capital Grants, Contributions and Restricted Interest	99,130	219,645
General Receipts:		
Property And Other City Tax	1,314,184	1,312,328
Tax Increment Financing	177,727	175,765
Local Option Sales Tax	245,403	287,223
Capital Loan Note Proceeds	0	641,247
Grants and Contributions Not Restricted		
To Specific Purpose	161,358	155,622
Unrestricted Investment Earnings	8,675	8,762
Rents	27,158	30,701
Sale of Assets	150	0
Total Receipts	3,025,701	3,660,132
Disbursements:		
Public Safety	295,308	306,675
Public Works	644,923	638,716
Health and Social Services	914	1,603
Culture And Recreation	588,182	543,510
Community and Economic Development	466,778	404,324
General Government	202,078	188,599
Debt Service	587,801	618,485
Capital Projects	380,369	482,214
Total Disbursements	3,166,353	3,184,126
Change in Cash Basis Net Position	(140,652)	476,006
Cash Basis Net Position Beginning of Year	3,102,734	2,626,728
Cash Basis Net Position End of Year	\$ 2,962,082	\$ 3,102,734

The City's total receipts for governmental activities this year was \$3,025,701, compared to \$3,660,132 last year, which is a decrease of \$634,431, or 17.3%. The decrease in receipts was mainly the result of a decrease of \$641,247 in capital loan note proceeds for financing of a street construction project. The cost of all governmental activities this year was \$3,166,353, compared to \$3,184,126 last year, which is a decrease of \$17,773, or 0.6%. The decrease in disbursements during the fiscal year was mainly due to a decrease in capital projects by \$101,845 and partially offset by an increase of \$62,454 in community and economic development.

The amount taxpayers ultimately financed for these governmental activities was only \$2,075,307, because some of the cost was paid by those who directly benefited from the programs (\$474,138) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$616,908). The City paid for the remaining "public benefit" portion of governmental activities with other receipts such as property taxes, tax increment financing, local option sales tax, general grants and contributions, unrestricted investment earnings, rents, and sale of assets.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Rock Rapids completed the year, its primary government governmental funds reported a combined cash balance of \$2,962,082, a decrease of \$140,652 from last year's total of \$3,102,734. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased by \$246,456, from \$943,017 to \$1,189,473 at June 30, 2013. This compares to a \$151,729 increase in the prior fiscal year. Receipts and other financing sources increased from the prior fiscal year by \$116,651, due mainly to increases of \$86,143 in competitive grant funding from Lyon County Riverboat Foundation and \$76,465 in IDOT grant funding for airport improvements, respectively. These increases were partly offset by a decrease of \$20,000 in transfers in from Local Option Sales Tax. Disbursements and other financing uses increased from the prior fiscal year by \$21,924 due to the following: an increase of \$39,506 in the culture and recreation function, due primarily to improvements done at the Forster Community Center; an increase of \$39,169 in the community and economic development function, due primarily to more businesses taking advantage of the Storefront Incentive Program; an increase of \$13,235 in the general government function due mainly because of the purchase of computer equipment. These increases were partially offset by a decrease of \$58,723 in the public works function due primarily to a decrease in airport improvements from the prior fiscal year (in order to receive the IDOT grant noted previously).
- The Special Revenue Road Use Tax Fund cash balance decreased by \$29,197, from \$375,757 to \$346,560 at June 30, 2013. This decrease, compared with a \$34,805 increase in the prior fiscal year, was primarily the result of the following disbursements during the current fiscal year: expenditures of \$41,858 for contract cleanup of debris resulting from an ice storm and increased costs of \$11,972 for purchase of capital equipment.
- The Library Memorial Trust Fund cash balance increased by \$2,040 from \$344,172 to \$346,212 at June 30, 2013. This compares to a \$3,813 increase in the prior fiscal year. Transactions were reasonably consistent between the fiscal years.
- The Debt Service Fund cash balance decreased by \$6,200, from \$121,995 to \$115,795 at June 30, 2013. This decrease, which compares to a larger decrease of \$37,468 during the prior fiscal year, was due primarily to certain interest costs involved with debt refinancing.
- The Capital Projects Fund cash balance decreased \$344,263, from 1,013,593 to \$669,330 at June 30, 2013. This compares to an increase of \$286,195 the prior fiscal year. Receipts and other financing sources decreased by \$732,303 during fiscal year '12/'13, due primarily to decreases of \$600,000 in bond proceeds and \$117,443 in grant proceeds for trail construction. Disbursements decreased by \$101,845 during fiscal year '12/'13 mainly due to decreased costs for Urban Renewal projects and partially offset by increased costs for trail construction.

BUDGETARY HIGHLIGHTS

The City amended its portion of the certified budget once during the 2013 fiscal year. Actual receipts came in \$449,642, or 12.9%, below budget for the City only portion of the certified budget. Intergovernmental receipts came in \$148,699, or 23.3%, below budget, due primarily to having budgeted for possible intergovernmental receipts for Municipal Housing Agency, a separate legal entity, for which the City always includes an estimate for possible intergovernmental receipts and related disbursements. Miscellaneous receipts came in \$320,645 or 51.7%, below budget, due primarily to budgeting high for reimbursements and donations.

Disbursements came in \$1,233,576, or 28.0%, below budget. All functions came in below budget for the City only portion of the certified budget. Disbursements for public works came in \$256,983, or 28.5%, below budget due, primarily to having budgeted for an internal non-expenditure transfer and for airport improvements that were completed during the prior fiscal year. Disbursements for community and economic development came in \$283,474, or 37.8%, below budget, due primarily to having budgeted for disbursements for the Municipal Housing Agency, a separate legal entity, for which the City always includes an estimate for possible intergovernmental receipts and related disbursements. Disbursements for capital projects came in \$326,631, or 46.2%, below budget, due mainly because of budgeting for urban renewal projects that did not materialize. The net cash change for the fiscal year came in \$784,084 higher than budgeted for the City only portion of the certified budget.

DEBT ADMINISTRATION

At June 30, 2013, the City had \$3,385,000 in notes, bonds and other long-term debt, compared to \$3,850,000 last year, as shown below:

Outstanding Debt at Year-End		
<u>TYPE OF DEBT</u>	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
General Obligation Capital Loan Notes	\$ 3,325,000	\$ 3,735,000
Grant Anticipation Capital Loan Notes	<u>60,000</u>	<u>115,000</u>
Total Long Term Debt	<u>\$ 3,385,000</u>	<u>\$ 3,850,000</u>

The City Council issued no debt during the 2013 fiscal year.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to five percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,325,000 (total debt of \$3,385,000 minus grant anticipation notes of \$60,000) is adequately below its constitutional debt limit of \$ 5,913,972.

More detailed information about the City's long-term debt is presented in Note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Many factors were considered by the elected and appointed officials of the City of Rock Rapids when setting the fiscal year 2014 budget, tax rates and fees that will be charged for the various City activities. Among these factors are construction activity, taxable retail sales, and long-term objectives.

Building permits for new construction or improvements issued during calendar year 2012 were as follows: forty-five permits for residential property, with estimated costs totaling \$3,141,880; six permits for

commercial or industrial property, with estimated costs totaling \$118,700; four permits for tax-exempt property, with estimated costs totaling \$515,700.

Taxable retail sales during fiscal year 2012 totaled \$28,044,928, which is an increase of \$2,078,591, or 8.0%, from the previous year. Rock Rapids presently accounts for 32.8% of totals for Lyon County, which is a decrease from 36.8% during the previous year. This trend toward a decreasing share of county-wide sales may be partly attributable to the recent opening of the Grand Falls Casino & Resort at the northwest corner of the county.

Consistent with goals and objectives identified in the City's Community-Wide Strategic Plan, the fiscal year 2014 budget includes a reduction, by two percent from the previous year, in the total tax levy rate on regular property. This decrease in property tax rates is offset by a 2.7% increase, to \$68,323,318 in regular property taxable valuation, resulting in a projected net increase of \$12,635 in total property tax revenues.

Excluding capital improvements, the fiscal year 2014 budget provides for a decrease in cash of approximately \$74,000, which is 2.0% of budgeted non-capital disbursements. However, due to budget surpluses that have accumulated in recent years, the City is projected to maintain adequate cash reserves.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of Rock Rapids' finances and to demonstrate the City's accountability for the money it receives. Questions about this report or requests for additional financial information should be addressed to: Jordan Kordahl, City Administrator, 310 South 3rd Avenue, Rock Rapids, Iowa 51246.

City of Rock Rapids
Basic Primary Government Financial Statements

City of Rock Rapids

Exhibit A

**Statement of Activities and Net Position – Cash Basis
Primary Government**

As of and for the Year Ended June 30, 2013

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest	Governmental Activities
Functions/Programs:					
Governmental Activities:					
Public Safety	\$ 295,308	200	52,230	16,657	(226,221)
Public Works	644,923	262,727	322,026	0	(60,170)
Health and Social Services	914	0	0	0	(914)
Culture and Recreation	588,182	122,661	97,926	0	(367,595)
Community and Economic Development	466,778	27,948	37,655	0	(401,175)
General Government	202,078	6,891	5,308	0	(189,879)
Debt Service	587,801	53,711	2,633	65,701	(465,756)
Capital Projects	380,369	0	0	16,772	(363,597)
Total Governmental Activities	<u>\$ 3,166,353</u>	<u>474,138</u>	<u>517,778</u>	<u>99,130</u>	<u>(2,075,307)</u>
General Receipts:					
Property and Other City Tax Levied for:					
General Purposes					630,108
Employee Benefits					224,519
Debt Service					459,557
Tax Increment Financing					17
Local Option Sales Tax					245,403
Grants and Contributions not Restricted to Specific Purpose					161,358
Unrestricted Interest on Investments					8,675
Rents					27,158
Sale of Capital Assets					150
Total General Receipts					<u>1,934,655</u>
Change in Cash Basis Net Position					(140,652)
Cash Basis Net Position Beginning of Year					<u>3,102,734</u>
Cash Basis Net Position End of Year					<u>\$ 2,962,082</u>
Cash Basis Net Assets					
Restricted:					
Nonexpendable - Library Endowment & Cemetery Perpetual Care					\$ 74,010
Expendable -					
Road Use Tax (Streets)					346,560
Library Projects					346,212
Debt Service					115,795
Capital Projects					669,330
Other Purposes					220,702
Unrestricted					<u>1,189,473</u>
Total Cash Basis Net Position					<u>\$ 2,962,082</u>

See Notes to Financial Statements

City of Rock Rapids

Exhibit B

**Statement of Cash Receipts, Disbursements, and Changes in Cash Balances
Primary Government**

As of and for the Year Ended June 30, 2013

	Special Revenue						
	General	Road Use Tax	Library Memorial Trust	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
Receipts:							
Property Tax	\$ 628,870	0	0	458,724	0	224,062	1,311,656
Tax Increment Financing	0	0	0	0	0	177,727	177,727
Other City Tax	1,238	0	0	833	0	245,860	247,931
Licenses and Permits	11,522	0	0	0	0	0	11,522
Use of Money and Property	32,557	5,103	2,318	3,333	6,550	4,155	54,016
Intergovernmental	234,932	244,907	0	0	10,222	0	490,061
Charges for Service	379,372	0	0	0	0	0	379,372
Special Assessments	0	0	0	53,711	0	0	53,711
Miscellaneous	207,715	385	4,072	65,000	0	22,383	299,555
Total Receipts	1,496,206	250,395	6,390	581,601	16,772	674,187	3,025,551
Disbursements:							
Operating:							
Public Safety	271,119	0	0	0	0	24,189	295,308
Public Works	314,738	279,592	0	0	0	50,593	644,923
Health and Social Services	914	0	0	0	0	0	914
Culture and Recreation	533,966	0	4,350	0	0	49,866	588,182
Community and Economic Development	213,424	0	0	0	0	253,354	466,778
General Government	167,597	0	0	0	0	34,481	202,078
Debt Service	0	0	0	587,801	0	0	587,801
Capital Projects	0	0	0	0	380,369	0	380,369
Total Disbursements	1,501,758	279,592	4,350	587,801	380,369	412,483	3,166,353
Excess (Deficiency) of Receipts Over (Under) Disbursements	(5,552)	(29,197)	2,040	(6,200)	(363,597)	261,704	(140,802)
Other Financing Sources (Uses):							
Sale of Capital Assets	150	0	0	0	0	0	150
Operating Transfers In	251,858	0	0	0	19,334	0	271,192
Operating Transfers Out	0	0	0	0	0	(271,192)	(271,192)
Total Other Financing Sources (Uses)	252,008	0	0	0	19,334	(271,192)	150
Net Change in Cash Balances	246,456	(29,197)	2,040	(6,200)	(344,263)	(9,488)	(140,652)
Cash Balances Beginning of Year	943,017	375,756	344,171	121,995	1,013,593	304,200	3,102,732
Cash Balances End of Year	\$ 1,189,473	346,559	346,211	115,795	669,330	294,712	2,962,080
Cash Basis Fund Balances							
Nonspendable - Library Endowment & Cemetery Perpetual Care	\$ 0	0	0	0	0	74,010	74,010
Restricted for:							
Road Use Tax (Streets)	0	346,560	0	0	0	0	346,560
Library Projects	0	0	346,212	0	0	0	346,212
Debt Service	0	0	0	115,795	0	0	115,795
Capital Projects	0	0	0	0	669,330	0	669,330
Other Purposes	0	0	0	0	0	220,702	220,702
Committed	54,008	0	0	0	0	0	54,008
Assigned	645,406	0	0	0	0	0	645,406
Unassigned	490,059	0	0	0	0	0	490,059
Total Cash Basis Fund Balances	\$ 1,189,473	346,560	346,212	115,795	669,330	294,712	2,962,082

See Notes to Financial Statements.

City of Rock Rapids

Notes to Primary Government Financial Statements

June 30, 2013

(1) Summary of Significant Accounting Policies

The City of Rock Rapids is a political subdivision of the State of Iowa located in Lyon County. It was first incorporated in 1885 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services.

A. Reporting Entity

For financial reporting purposes, the City of Rock Rapids has included all funds, organizations, agencies, boards, commissions, and authorities of the primary government. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Rock Rapids (the primary government). As noted in the Independent Auditor's Report, the component units discussed below are not included in the financial statements. The primary government financial statements, because they do not include the financial data of the component units of the City of Rock Rapids, do not purport to, and do not present fairly the cash basis financial position of the reporting entity of the City of Rock Rapids, Iowa, as of June 30, 2013, and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described here in Note 1.

Component Units – If it were not for the City of Rock Rapids preparing financial statements of the primary government only, the Rock Rapids Municipal Utilities and the Rock Rapids Municipal Housing Agency would be included as part of the City's reporting entity because of the significance of each organization's operational or financial relationship with the City. The Rock Rapids Municipal Utilities and the Rock Rapids Municipal Housing Agency would be presented as discretely presented component units in a separate column in the Statement of Activities and Net Position – Cash Basis to emphasize that each is legally separate from the City, but are financially accountable to the City, or whose relationships with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete.

The Municipal Utilities is governed by a three-member board appointed by the Mayor and approved by the City Council and the Municipal Utilities operating budget is approved by the City Council. To obtain the financial information on the Municipal Utilities, please contact the Municipal Utilities' office. A copy of the Municipal Utilities' audit report is available for the public's review. The Rock Rapids Municipal Housing Agency is governed by a five-member board appointed by the Mayor and City Council and the City has the ability to impose its will on the Housing Agency by influencing the programs, projects, activities and level of services performed/provided by the Housing Agency. To obtain financial information on the Housing Agency, please contact the Chamber of Commerce/Municipal Housing office.

The City of Rock Rapids received \$123,896 from the Rock Rapids Municipal Utilities during the fiscal year ended June 30, 2013 (\$118,616 is intergovernmental receipts and \$5,280 is charges for service). Of the \$118,616 in intergovernmental receipts from the Rock Rapids Municipal Utilities, \$97,319 is donations, \$17,395 is reimbursements for the Utilities share of construction contracts and \$3,902 is for the Utilities share of the residential demolition program. The Rock Rapids Municipal Utilities also contributed in-kind \$12,721 to the City through the Retrofit Street Lighting Project. The City of Rock Rapids paid the Rock Rapids Municipal Utilities \$5,000 for rent and \$11,805 for garbage/recycling billing and collection services. The City of Rock Rapids also pays the Utilities for utility services and both entities charge each other for any occasional labor and materials provided to each other. The City of Rock Rapids received \$7,877 in intergovernmental receipts (payment in lieu of taxes) from the Rock Rapids Municipal Housing Agency during the fiscal year ended June 30, 2013. The City of Rock Rapids did not pay any money to the Rock Rapids Municipal Housing Agency during the fiscal year ended June 30, 2013.

Jointly Governed Organizations – The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Lyon County Assessor's Conference Board, Lyon County Joint E911 Service Board, Lyon County Emergency Management Commission, the Northwest Iowa Area Solid Waste Agency, the Lyon County Economic Development Consortium, the Northwest Iowa Regional Housing Authority and the Hazardous Material Response Commission (HAZMAT). During the fiscal year ended June 30, 2013, the City did not directly contribute any money to the Assessor, E911, Emergency Management, Economic Development Consortium, the Northwest Iowa Area Solid Waste Agency, the Northwest Iowa Regional Housing Authority or HAZMAT.

B. Basis of Presentation

Government-Wide Financial Statement – The Cash Basis Statement of Activities and Net Position – Primary Government (previously referred to as net assets) reports information on all of the nonfiduciary activities of the City's primary government. For the most part, the effect of interfund activity has been removed from this statement. This financial statement reports governmental activities which are supported to a significant extent by tax and intergovernmental revenues.

The Cash Basis Statement of Activities and Net Position – Primary Government presents the City's primary government nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash basis to be maintained permanently by the City, including the City's Permanent Funds (the Library Endowment and Cemetery Perpetual Care Funds).

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on cash balances imposed by management, which can be removed or modified (General Fund).

The Statement of Activities and Net Position – Primary Government demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statement – A separate financial statement is provided for the primary government governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statement. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Library Memorial Trust Fund is used to account for library projects financed by donations and investment income.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and/or construction of major capital equipment and facilities for the City.

C. Measurement Focus and Basis of Accounting

The City of Rock Rapids maintains its financial records on the basis of cash receipts and disbursements and the primary government financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the primary government financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City may fund certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact (the City's Permanent Funds).

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through

constitutional provisions or enabling legislation (the City's Special Revenue, Debt Service and Capital Projects Funds).

Committed – Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the Council through ordinance or resolution approved prior to year end. Committed amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same action it employed to commit those amounts (General Fund : Library purposes - \$54,008).

Assigned – Amounts the Council intends to use for specific purposes (General Fund: Community Center Purposes - \$56,865, Park Improvement Purposes - \$53,814, Fire Department Purposes - \$216,255, Airport Purposes - \$167,040, Lyon County Riverboat Foundation Receipts for Special Projects - \$121,432 and Trees Purposes - \$30,000).

Unassigned – All amounts not included in other spendable classifications (portion of the General Fund).

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements for the City of Rock Rapids only portion of the budget did not exceed the amounts budgeted in any function.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute and its written investment policy to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) **Notes Receivable - Revolving Loan Fund**

The City established a Revolving Loan Fund for the purpose of lending monies for various economic development projects at a reasonable rate of interest to promote economic development within the City.

The notes issued are payable over ten years at 3.5% for the first five years and an adjustable rate for the last five years. The balances as of June 30, 2013 are computed as follows:

Balance on June 30, 2012	\$	100,700
New Notes Issued		41,000
Payments on Principal		<u>(16,873)</u>
Balance on June 30, 2013	\$	<u>124,827</u>

The following are the scheduled amounts of notes receivable principal (net of \$0 in allowance for doubtful accounts) coming due for the fiscal years ending:

June 30, 2014	\$ 15,582
June 30, 2015	13,801
June 30, 2016	14,293
June 30, 2017	14,802
June 30, 2018	15,328
June 30, 2019 and After	51,021
	<u>\$ 124,827</u>

Loans are carried as notes receivable until deemed uncollectible. As of June 30, 2013, no allowance for doubtful accounts has been recorded. Due to the primary government financial statements being prepared on the cash basis, these notes receivable are not reflected on the City's financial statements.

(4) Notes Payable

Annual debt service/loan requirements to maturity for general obligation capital loan notes and grant anticipation capital loan notes are as follows:

Year Ended June 30	General Obligation Capital Loan Notes		Grant Anticipation Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	345,000	102,663	60,000	3,330	405,000	105,993
2015	390,000	59,395	0	0	390,000	59,395
2016	390,000	54,173	0	0	390,000	54,173
2017	400,000	47,663	0	0	400,000	47,662
2018	410,000	40,462	0	0	410,000	40,463
2019	415,000	32,010	0	0	415,000	32,010
2020	375,000	22,490	0	0	375,000	22,490
2021	200,000	13,100	0	0	200,000	13,100
2022	200,000	9,100	0	0	200,000	9,100
2023	200,000	4,700	0	0	200,000	4,700
Total	\$ 3,325,000	385,756	60,000	3,330	3,385,000	389,086

During the fiscal year ended June 30, 2013, the City redeemed principal on general obligation capital loan notes of \$410,000, paid \$113,446 in interest on the long-term debt and paid \$2,500 in note fees. The general obligation capital loan notes were redeemed through the Debt Service Fund in the fiscal year ended June 30, 2013.

The grant anticipation capital loan notes are to be repaid from an annual contribution in a minimum amount of \$55,000 to the City of Rock Rapids from the Trustees of the James W. and Ella B. Forster Charitable Trust. During the fiscal year ended June 30, 2013, the City redeemed principal of \$55,000 and paid 6,355 in interest on the grant anticipation capital loan notes and paid \$500 in note fees. The grant anticipation capital loan notes were redeemed through the Debt Service Fund in the fiscal year ended June 30, 2013.

Due to the primary government financial statements being prepared on the cash basis, these notes payable are not reflected on the City's financial statements.

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$48,349, \$42,964 and \$32,253, respectively, equal to the required contributions for each year.

(6) Other Postemployment Benefits (OPEB)

Plan Description. The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 11 active and 1 retired members participating in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark Blue Cross and Blue Shield of Iowa. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy. The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$537 for single coverage and \$1,327 for family coverage. For the year ended June 30, 2013, the City contributed \$90,099 and plan members eligible for benefits contributed \$32,299 to the plan.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2013, primarily relating to the General and Road Use Tax Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 50,156
Sick Leave	22,324
Total	<u>\$ 72,480</u>

All of an employee's vacation is paid upon retirement, termination or death. If an employee, except a Library employee, has ten or more years of service with the City, 15% of sick leave is paid upon retirement, termination or death. No sick leave is paid upon retirement, termination or death for Library employees. The amount of sick leave reported above only includes the sick leave for eligible employees that have attained the ten years or more of service requirement.

This liability has been computed based on rates of pay in effect at June 30, 2013.

(8) Interfund Transfers

The detail of Interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Local Option Sales Tax	\$ 250,000
General	Special Revenue: Urban Renewal Tax Increment	1,858
Special Revenue: Capital Projects	Special Revenue: Urban Renewal Tax Increment	19,334
Total		<u>\$ 271,192</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are mainly covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The City did decrease the limit per occurrence on the following coverage from \$250,000 to \$200,000 during the fiscal year ended June 30, 2013: employee theft-blanket (per loss) computer fraud and funds transfer fraud. Please see "Findings Related to the Primary Government Financial Statements: 13-G" in regards to "hangar keepers coverage" for the airport.

(10) Employee Health Insurance Coverage

The City of Rock Rapids provides group health insurance coverage for eligible employees through Wellmark Blue Cross and Blue Shield of Iowa. The City assumes liability for claims against the insurance deductible of \$250 for the first \$500, and covers anything over that up to \$2,000 under an individual policy. The City covers \$500 for the first \$1,000, and covers anything over that up to \$4,000 for a family policy. The City's expense for insurance premiums and any deductibles paid for health insurance coverage is accounted for in the appropriate fund.

(11) Intergovernmental Agreement

The City has entered into an agreement with the Northwest Iowa Area Solid Waste Agency, a political subdivision created in accordance with Chapter 28E of the Code of Iowa, for disposal of solid waste produced or generated from within the City. There were no payments made directly to the Northwest Iowa Area Solid Waste Agency by the City during the fiscal year ended June 30, 2013.

State and federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after

closure. The closure and post closure costs to the Agency have been estimated at \$3,033,042 as of June 30, 2013 and the portion of the liability that has been recognized by the Agency as of June 30, 2013 is \$1,819,825.

The estimated remaining life of the landfill is 26 years and the capacity used at June 30, 2013 is approximately 60 percent. The Agency has begun to accumulate resources to fund these costs. As of June 30, 2013, assets of \$1,608,266 are restricted for these purposes. The Agency has fully demonstrated financial assurance for closure and post closure care costs as required by Chapter 113 of the Iowa Administrative Code. No estimate has been made as to the possibility of any future assessments to the City.

(12) Commitments

In June 2013, the City approved a contract for seal coating in the amount of \$53,240. As of June 30, 2013, the seal coating project was still in process and the entire contract balance was outstanding (see "Subsequent Events" below).

In April 2013, the City approved a contract for the N. Boone sanitary sewer extension in the amount of \$31,038. As of June 30, 2013, the N. Boone sanitary sewer extension project was still in process and the entire contract balance was outstanding (see "Subsequent Events" below).

In April 2013, the City approved a contract for repairs on the carport of Forster Community Center for \$7,945. As of June 30, 2013, the construction was still in process and entire amount was outstanding (see "Subsequent Events" below).

In November 2012, the City approved reimbursements to Lyon County in the amount of \$173,893, payable in 3 equal annual payments of \$57,964 starting in fiscal year 2014, for resurfacing work done on K-52.

(13) Subsequent Events

In August 2013, the project approved in April 2013 for repairs on the carport of the Forster Community Center was completed and paid from the Capital Projects Fund. The project ended with a total contract price of \$11,265 due to \$3,320 in change orders.

In September and October 2013, the City made two payments totaling \$56,008 from the Capital Projects Fund for the completion of the seal coating project approved in June 2013. The total costs on this project came in over the contract amount due to additional work done.

In September 2013, the City approved contracts for asbestos removal and the demolition of an abandoned downtown commercial building. In November 2013, the asbestos removal was completed and payment was made from the General Fund for the contracted amount of \$9,450. The demolition of the building was completed in April 2014 and payment of the contract price of \$40,000 was paid from the General Fund.

In September 2013, the Council approved to contract with the Iowa Economic Development Authority for receipt of a 2013 CDBG Community Facilities & Services Award (to be used for the development of a new facility for Rock Rapids Kids Club) in the amount of \$600,000. As of the date of the audit, there have not been any amounts received by the City under this award.

In October 2013, the Council approved a Tax Increment Financing (TIF) Rebate Program, in which 90 percent of eligible property tax revenue within the TIF area would be distributed to the property owner for a maximum of twelve years, with an aggregate maximum of \$120,000.

In November 2013, the City made payments totaling \$44,690 from the Capital Projects Fund for the completion of the N. Boone sanitary sewer extension project approved in April 2013. The total costs on this project came in over the contract amount due to additional work done.

City of Rock Rapids

Other Information

City of Rock Rapids

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds Primary Government

Other Information

Year Ended June 30, 2013

	Governmental Funds Actual	Budgeted Original	Amounts Final	Final to Actual Variance
Receipts:				
Property Tax	\$ 1,311,656	1,316,098	1,316,098	(4,442)
Tax Increment Financing	177,727	183,056	183,056	(5,329)
Other City Tax	247,931	240,049	240,049	7,882
Licenses and Permits	11,522	7,500	7,500	4,022
Use of Money and Property	54,016	82,715	82,715	(28,699)
Intergovernmental	490,061	638,760	638,760	(48,699)
Charges for Service	379,372	326,815	326,815	52,557
Special Assessments	53,711	60,000	60,000	(6,289)
Miscellaneous	299,555	620,200	620,200	(320,645)
Total Receipts	\$ 3,025,551	3,475,193	3,475,193	(449,642)
Disbursements:				
Public Safety	\$295,308	404,010	404,010	108,702
Public Works	644,923	842,906	901,906	256,983
Health and Social Services	914	1,000	5,000	4,086
Culture and Recreation	588,182	660,897	765,897	177,715
Community and Economic Development	466,778	700,252	750,252	283,474
General Government	202,078	233,791	243,791	41,713
Debt Service	587,801	572,073	622,073	34,272
Capital Projects	380,369	707,000	707,000	326,631
Total Disbursements	\$ 3,166,353	4,121,929	4,399,929	1,233,576
Deficiency of Receipts Under Disbursements	(140,802)	(646,736)	(924,736)	783,934
Other Financing Sources, Net	150	0	0	150
Deficiency of Receipts and Other Financing Sources Under Disbursements and Other Financing Uses	(140,652)	(646,736)	(924,736)	784,084
Balances Beginning of Year	3,102,734	3,003,978	1,789,136	1,313,598
Balances End of Year	\$ 2,962,082	2,357,242	864,400	2,097,682

City of Rock Rapids

**Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds
Primary Government**

Other Information

Year Ended June 30, 2013

- Note: These figures do not reflect amounts included in the City's legally adopted budget for the Rock Rapids Municipal Utilities, which is a component unit that was audited separately. The amounts that were removed for the Rock Rapids Municipal Utilities from the original budget included \$4,704,303 in receipts (\$4,668,303 in charges for service and \$36,000 in miscellaneous, \$4,692,270 in disbursements (business type activities), balance beginning of year of \$5,364,412 and balance end of year of \$5,376,445. The amounts that were removed for the Rock Rapids Municipal Utilities from the final amended budget included \$4,704,303 in receipts (\$4,668,303 in charges for service and \$36,000 in miscellaneous, \$5,567,270 in disbursements (business type activities), balance beginning of year of \$5,462,016 and balance end of year of \$4,599,049.

See Accompanying Independent Auditor's Report.

City of Rock Rapids

Notes to Other Information – Budgetary Reporting

June 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds (which there are none) for the City of Rock Rapids. The City's adopted budget includes the Rock Rapids Municipal Utilities, which is a legally separate component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the fiscal year, there was one budget amendment on May 28, 2013 (City only portion of the budget: budgeted receipts did not change, budgeted disbursements increased by \$278,000). The budget amendment is reflected in the final budgeted amounts.

The Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds – Primary Government does not reflect the amounts included in the City's budget for the Rock Rapids Municipal Utilities. Please see the Rock Rapids Municipal Utilities audit report for information concerning budget to actual figures for the Municipal Utilities.

During the year ended June 30, 2013, disbursements did not exceed the amount budgeted for any function.

City of Rock Rapids
Supplementary Information

City of Rock Rapids

Schedule 1

**Statement of Cash Receipts, Disbursements, and Changes in Cash Balances
Primary Government**

As of and for the Year Ended June 30, 2013

	Special Revenue				Permanent		Total
	Employee Benefits	Local Option Sales Tax	Urban Renewal Tax Increment	Revolving Loan Fund	Library Endowment	Cemetery Perpetual Care	
Receipts:							
Property Tax	\$ 224,062	0	0	0	0	0	224,062
Tax Increment Financing	0	0	177,727	0	0	0	177,727
Other City Tax	457	245,403	0	0	0	0	245,860
Use of Money and Property	0	0	0	4,155	0	0	4,155
Miscellaneous	0	0	0	16,973	0	5,410	22,383
Total Receipts	224,519	245,403	177,727	21,128	0	5,410	674,187
Disbursements:							
Operating:							
Public Safety	24,189	0	0	0	0	0	24,189
Public Works	50,593	0	0	0	0	0	50,593
Culture and Recreation	49,866	0	0	0	0	0	49,866
Community and Economic Development	47,867	0	164,487	41,000	0	0	253,354
General Government	34,481	0	0	0	0	0	34,481
Total Disbursements	206,996	0	164,487	41,000	0	0	412,483
Excess (Deficiency) of Receipts Over (Under) Disbursements	17,523	245,403	13,240	(19,872)	0	5,410	261,704
Other Financing Uses:							
Operating Transfers Out	0	(250,000)	(21,192)	0	0	0	(271,192)
Net Change in Cash Balances	17,523	(4,597)	(7,952)	(19,872)	0	5,410	(9,488)
Cash Balances Beginning of Year	105,518	51,746	18,153	60,183	2,000	66,600	304,200
Cash Balances End of Year	\$ 123,041	47,149	10,201	40,311	2,000	72,010	294,712
Cash Basis Fund Balances							
Nonspendable: Library Endowment & Cemetery Perpetual Care	\$ 0	0	0	0	2,000	72,010	74,010
Restricted for:							
Other Purposes	123,041	47,149	10,201	40,311	0	0	220,702
Total Cash Basis Fund Balances	\$ 123,041	47,149	10,201	40,311	2,000	72,010	294,712

See Accompanying Independent Auditor's Report.

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Schedule 2

City of Rock Rapids

Statement of Indebtedness – Primary Government

Year Ended June 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Capital Loan Notes:									
Street Improvements	May 1, 2008	3.35%	\$ 2,550,000	\$ 405,000	0	200,000	205,000	65,778	0
Street Improvements	June 1, 2010	1.95-3.40%	1,675,000	1,270,000	0	210,000	1,060,000	33,440	0
Street Improvements	April 30, 2012	2.0%-2.35%	600,000	600,000	0	0	600,000	14,228	0
Refunding 2012B	April 30, 2012	0.8%-1.80%	1,460,000	1,460,000	0	0	1,460,000	0	0
Total				\$ 3,735,000	0	410,000	3,325,000	113,446	0
Grant Anticipation Capital Loan Notes:									
Forster Community Building	June 1, 1998	5.55%	\$ 670,000	\$ 115,000	0	55,000	60,000	6,355	0

See Accompanying Independent Auditor's Report.

City of Rock Rapids

Note Maturities – Primary Government

June 30, 2013

General Obligation Capital Loan Notes												
Year Ending June 30,	Street Improvements			Street Improvements			Refunding 2012B			Street Improvements		
	Issued June 1, 2010		Interest Rates	Issued May 1, 2008		Interest Rates	Issued April 30, 2012		Interest Rates	Issued April 30, 2012		
	Amounts			Amounts			Amounts			Amounts		
		1.95%	140,000	3.35%	205,000	-	0	0.08%	245,000	-	0	0
2014											345,000	
2015	2.25%	145,000	-	0			0	245,000	-	0	390,000	
2016	2.80%	145,000	-	0			1.0%	245,000	-	0	390,000	
2017	2.80%	150,000	-	0			1.2%	250,000	-	0	400,000	
2018	3.15%	155,000	-	0			1.4%	255,000	-	0	410,000	
2019	3.40%	160,000	-	0			1.6%	255,000	-	0	415,000	
2020	3.40%	165,000	-	0			1.8%	210,000	-	0	375,000	
2021	-	0	-	0			-	0	2.0%	200,000	200,000	
2022	-	0	-	0			-	0	2.20%	200,000	200,000	
2023	-	0	-	0			-	0	2.35%	200,000	200,000	
		\$ 1,060,000		205,000				1,460,000		600,000	\$3,325,000	

Grant Anticipation Capital Loan Notes	
Forster Community Building	
Issued June 1, 1998	
Year Ending June 30,	Interest Rates
	Amounts
2014	\$ 60,000

See Accompanying Independent Auditor's Report.

City of Rock Rapids
Schedule of Receipts by Source and Disbursements by Function –
All Governmental Funds
Primary Government
For the Last Ten Years

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Receipts:										
Property Tax	\$ 1,311,656	1,309,787	1,320,420	1,148,455	1,243,128	1,204,514	1,281,476	1,143,078	1,181,996	1,188,762
Tax Increment Financing	177,727	175,765	177,782	124,264	116,926	106,300	97,323	58,816	65,530	59,727
Other City Tax	247,931	289,763	187,085	181,385	181,954	172,028	177,454	150,698	149,617	136,968
Licenses and Permits	11,522	9,289	8,594	7,354	10,424	10,685	10,183	10,309	10,032	7,618
Use of Money and Property	54,016	57,214	50,243	67,890	106,550	94,146	128,669	85,901	44,256	34,184
Intergovernmental*	490,061	403,588	546,418	518,490	854,690	454,564	569,711	631,132	502,983	722,305
Charges for Service	379,372	370,245	329,933	300,259	302,792	286,158	279,477	257,502	252,326	243,203
Special Assessments	53,711	62,424	118,360	361,821	26,282	3,292	4,565	3,414	3,915	25,120
Miscellaneous	299,555	340,810	228,918	184,592	114,904	142,721	153,097	277,009	123,193	185,300
Total Receipts	\$ 3,025,551	3,018,885	2,967,753	2,894,510	2,957,650	2,474,408	2,701,955	2,617,859	2,333,848	2,603,187
Disbursements:										
Operating:										
Public Safety	\$ 295,308	306,675	329,798	275,426	462,199	237,072	208,849	205,274	250,076	242,243
Public Works	644,923	638,716	665,723	885,920	499,689	602,819	461,370	507,579	449,503	601,982
Health and Social Services	914	1,603	0	0	0	0	0	0	0	0
Culture and Recreation	588,182	543,510	507,794	592,245	461,023	489,112	512,154	515,733	472,025	384,414
Community and Economic Development	466,778	404,324	372,628	290,526	252,009	224,259	210,810	332,804	239,382	370,103
General Government	202,078	188,599	192,748	214,121	176,716	170,643	163,409	153,684	152,184	206,552
Debt Service	587,801	618,485	563,290	946,888	899,413	840,100	606,850	538,022	483,111	515,759
Capital Projects	380,369	482,214	690,595	1,107,806	1,952,377	432,012	577,829	61,206	183,434	95,876
Total Disbursements	\$ 3,166,353	3,184,126	3,322,576	4,312,932	4,703,426	2,996,017	2,741,271	2,314,302	2,229,715	2,416,929

*Intergovernmental receipts includes a \$100,000 donation in 2007 from the Rock Rapids Municipal Utilities that was reported as a "special item".

See Accompanying Independent Auditor's Report.

City of Rock Rapids

**Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial
Statements Performed in Accordance with
*Government Auditing Standards***

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Independent Auditor's Report on **Internal Control over Financial Reporting and on Compliance and Other Matters** **Based on an Audit of Financial Statements Performed in Accordance with** **Government Auditing Standards**

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the primary government financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Rock Rapids, Iowa, as of and for the fiscal year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic primary government financial statements, and have issued our report thereon dated April 28, 2014. Our report expressed unmodified opinions on the primary government financial statements which were prepared on the basis of cash receipts and disbursement, a basis of accounting other than U.S. generally accepted accounting principles. However, the financial statements referred to above include only the primary government of the City of Rock Rapids, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles prepared on the basis of accounting described in Note 1 require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Rock Rapids, Iowa, as of June 30, 2013, and the changes in cash basis financial position for the fiscal year then ended in conformity with the basis of accounting described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit of the primary government financial statements, we considered the City of Rock Rapids' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the primary government financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Rock Rapids' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Rock Rapids' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items 13-A, B, E, F, G and I to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items 13-C, D, and H to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rock Rapids' primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the fiscal year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the primary government financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Rock Rapids' Responses to Findings

The City of Rock Rapids' responses to the findings identified in our audit are described in the accompanying Schedule of Fids. The City of Rock Rapids' responses were not subjected to the auditing procedures applied in the audit of the primary government financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not or provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Rock Rapids during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

De Noble, Austin & Company PC
De Noble & Company PC
d/b/a De Noble, Austin & Company PC
Certified Public Accountants

April 29, 2014

City of Rock Rapids

Schedule of Findings

Year Ended June 30, 2013

Findings Related to the Primary Government Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- 13-A Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the handling of cash and numerous recordkeeping functions are not entirely separated among employees.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. An independent person could be used to regularly check paychecks for accuracy, verify vacation and sick leave, examine employee expense reimbursements, periodically examine investments, review invoices and review the financial records.

Response – We will continue to investigate the options we have within economic constraints in order to segregate duties to the extent possible with existing personnel of the City and the Municipal Utilities.

Conclusion – Response accepted. It is important that you continue to attempt to implement these recommendations.

- 13-B Records of Accounts – The Library Board maintains the accounting records pertaining to the operations of the Library. These transactions are not recorded in complete detail in the Clerk's records (only the totals for the fiscal year are entered in the Clerk's records). Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose."

Recommendation – For better accountability, financial and budgetary control, all financial activity of all City accounts should be recorded in the Clerk's records.

Response – The financial activity and balances of the Library are subjected to annual audit and are handled by responsible individuals. No irregularities and only minor errors have ever been detected. If the Library Board has an individual who is willing and able to provide her services for no additional remuneration, the City Clerk will continue to review the Library Board's reports that are provided on a monthly basis as a form of control and enter the fiscal year totals in the Clerk's records.

Conclusion – Response acknowledged. The City of Rock Rapids is aware of our recommendation.

City of Rock Rapids
Schedule of Findings
Year Ended June 30, 2013

- 13-C Capital Assets/Inventory Records – Complete records for all capital assets (office equipment records have not been finalized) and inventory should be maintained and kept up-to-date. Capital assets are not all marked for identification purposes.

Recommendation – To facilitate the proper insurance, maintenance and safeguarding of these assets, such records should be established. A reconciliation of all capital assets and inventory should be taken by an independent person at least once a year and compared against capital assets/inventory records. Capital assets should be marked for identification purposes to assist in the existence and accountability functions.

Response – We have completed the records for all areas to date other than office equipment. We will continue to work on compiling complete records and annually reviewing this list.

Conclusion – Response accepted.

- 13-D Off-Site Storage of Manual Records – There may be some benefit to having some of the manual records duplicated and the copies stored at an off-site location.

Recommendation – Sensitive manual records should be evaluated for needed protection and stored at an off-site location.

Response – We have created copies of computer records and certain manual records that are being stored off-site. We will continue to evaluate manual records for what may need to be stored off-site.

Conclusion – Response accepted. Please do attempt to continue in evaluating the manual records.

- 13-E Job Rotations – Financial personnel's duties are not always rotated for a period of time each fiscal year.

Recommendation – The City should consider the need for financial personnel (including the Library) to annually take a minimum amount of vacation time and each person's duties should be done by another employee when a person is on vacation. The City needs to have individuals who are trained in an employee's position in order to provide backup support in case of an emergency.

Response – We will continue to work toward being able to rotate duties within economic constraints. We attempt to minimize any potential problems in this area through supervisory review of job duties.

Conclusion – Response acknowledged. Please attempt to rotate financial personnel's duties on a regular basis. Please make sure the Library addresses this also.

City of Rock Rapids

Schedule of Findings

Year Ended June 30, 2013

- 13-F Management Procedures – Based on findings during the audit, we identified that there appears to be a lack of oversight by management over developing internal control, compliance and antifraud procedures and monitoring existing procedures that are in place to ensure the procedures are enforced.

Recommendation – City management needs to establish policies and procedures that ensure effective internal control, compliance and antifraud procedures are in place and monitored on a regular basis. City management needs to review any audit findings identified and assess the level of risk associated with each finding and incorporate this assessed level of risk into its development of policies and procedures.

Response – The City expects to completely resolve several recommendations and will continue to work on the other comments/recommendations within time constraints.

Conclusion – Response accepted.

- 13-G Insurance Policy – The City has received a recommendation from its insurance provider to require “hangerkeepers coverage” in the airport’s fixed base operator lease. This is a separate policy that covers the aircraft that is being serviced or repaired by the lessee, as this is not covered by the general liability policy.

Recommendation – The City should consider the need to require an adequate amount of “hangerkeep coverage” in its airport operator lease.

Response – The City will continue to evaluate the necessity to require “hangerkeepers coverage” in the airport’s fixed base operator lease.”

Conclusion – Response accepted. Please make sure your City Attorney and insurance agent are in agreement that the City has adequate coverage based on the risk the City is willing to accept.

- 13-H Accounting Procedures Manual – The City Library does not have an updated accounting procedures manual for the Library’s accounting system.

Recommendation – An updated accounting procedures manual should be prepared, adopted by the Library Board and implemented for the Library’s accounting system.

Response – The Library will work on updating its accounting procedures manual.

Conclusion – Response accepted.

City of Rock Rapids
Schedule of Findings
Year Ended June 30, 2013

- 13-I Airport Fuel Sales Test – We noted that there is no procedures in place for reconciling and reviewing airport fuel sales, gallons purchased and gallons on hand on a consistent basis.

Recommendation – The City should implement procedures to reconcile the credit card sales statements received from the credit card companies to the deposits made into the bank accounts in order to be sure that all money is being properly deposited. Additionally, a reconciliation should be performed between the number of gallons purchased to the number of gallons sold; this reconciliation should be reviewed by the appropriate level of management for reasonableness.

Response – We will analyze the procedures for the airport fuel sales in order to determine a better way to reconcile the airport fuel sales.

Conclusion – Response accepted.

- 13-J Disbursement Procedures – We noted an instance where the City reimbursed an employee for a meal at a local restaurant when the employee did not provide the City with detailed support of what was purchased.

Recommendation – All disbursements need to be supported by an actual receipt or invoice that supports the disbursement in detail.

Response – We will continue to improve our procedures to ensure proper documentation is received for meal reimbursements.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Rock Rapids
Schedule of Findings
Year Ended June 30, 2013

Other Findings Related to Required Statutory Reporting:

- 13-1 Certified Budget – Disbursements during the year ended June 30, 2013 did not exceed the amount budgeted for any function.
- 13-2 Questionable Disbursements – We noted no disbursements which we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979. However, please see "Findings Related to the Financial Statements 13-J" for a possible related comment.
- 13-3 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- 13-4 Business Transactions – No business transactions between the City and City officials or employees were noted.
- 13-5 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- 13-6 City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not. However, we noted that the City Council had included in its resolution authorizing interfund transfers, amounts within particular funds which were actually being designated by the City Council for specific purposes, not actually transfers between funds.
- Recommendation – The City should pass restrictions of funds and interfund transfers as distinct, separate resolutions.
- Response – We will implement your recommendation.
- Conclusion – Response accepted.
- 13-7 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's written investment policy were noted.
- 13-8 Urban Renewal Annual Report – The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

City of Rock Rapids

Schedule of Findings

Year Ended June 30, 2013

- 13-9 Sales Tax – Sales tax was being submitted by calculating sales tax on the total sales, which already included the tax; therefore, resulting in extra sales tax being paid to the State of Iowa. Also, sales tax was not being collected or remitted on pool rent.

Recommendation – The City should go back three years and correct these sales tax related errors.

Response – The City has implemented your recommendation by filing three years of corrected sales tax returns.

Conclusion – Response accepted.

- 13-10 Flex Spending Plan – Per the flex spending plan, once an election is in place for the plan year, an employee cannot change the amount taken out of his or her check, unless a qualifying event takes place. The City allowed a violation of the plan by letting an employee change their elected amount without having a qualifying event take place.

Recommendation – The City should implement procedures to ensure that all benefit plans are being complied with. The City is risking having the entire plan denied for all participants by not following the parameters of the plan.

Response- We will implement your recommendation.

Conclusion- Response accepted.

City of Rock Rapids

Staff

This audit was performed by:

David De Noble, CPA, Senior Auditor
Carmen Austin, CPA, Senior Auditor
Kayla Reck, Assistant Auditor
Nathan Hoekstra, Assistant Auditor

De Noble & Company PC
d/b/a De Noble, Austin & Company PC
Certified Public Accountants